

**WORKING DRAFT**

Last Modified 9/19/2012 10:09:18 PM Central Standard Time

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# Governor Snyder's Plan to Modernize Michigan's Health Insurance Market

Briefing

**While Governor's plan is not what BCBSM would have proposed, it largely meets BCBSM's principles of regulatory reform**

**BCBSM's guiding principles for reform:**

- Reform should allow BCBSM to remain a non-profit, Michigan based company
- Reform should allow BCBSM to continue our mission to expand access to affordable care and improve the health of the people of Michigan
- Reform should create a level-playing field within Michigan; where all insurers play by the same rules
- Reform should not negatively impact the strong relationships we have with our stakeholders

## Key elements of the Governor's plan would modernize Michigan's health insurance market

These are the key points we would like to cover with you today regarding the Governor's plan:

1. Regulates all health insurers under the same set of rules – creating a **level playing field** to increase competition, reduce health care costs, improve quality, and give customers more choices while also ensuring that **BCBSM pays state taxes**
2. Establishes an **unprecedented \$1.5 billion contribution** from BCBSM for the health of Michigan's people
3. Ensures that BCBSM will continue to be a **nonprofit**, Michigan based health insurer providing access to high-quality, affordable health insurance for Michigan citizens

**LEVEL PLAYING FIELD**  
**Governor Snyder's plan regulates all health insurers under the same set of rules, giving Michigan modern regulations that encourage a stronger marketplace**

**A level playing field would increase competition, reduce health care costs, improve quality, and give customers more choice**

- The proposal entails that:
  - Legislation would allow BCBSM to transition to a nonprofit mutual under the insurance code
  - BCBSM board would have to approve the transition
  - This levels the playing field because:
    - All health insurers would be regulated under the Insurance Code and will play by the same rules
    - BCBSM would have to pay state and local taxes like commercial insurance companies
    - BCBSM will not have any special regulatory advantages or burdens – it will be regulated under the same rules as commercial insurers

## Governor's proposal transitions BCBSM into a nonprofit mutual company

### What is a mutual?

- A mutual is a common governance structure for an organization
  - Some of the most well known organizations in Michigan are organized as a mutual, including Farm Bureau and AAA
  - There are 12 other Blues mutuals in 14 states
- BCBSM wants to remain nonprofit, thus an amendment is required to the insurance code to create a nonprofit mutual
- Ownership of a mutual resides with its members

- BCBSM would pay the same Michigan taxes as commercial insurers
- The nonprofit distinction allows us to retain our focus on providing access to affordable care by keeping costs and margins low, not maximizing profit

# UNPRECEDENTED CONTRIBUTION

## The \$1.5 billion contribution is an unprecedented opportunity for Michigan

- BCBSM would contribute \$1.5 billion over 18 years to a nonprofit entity established to invest in key health care priorities for the people of Michigan
  - Health care access
  - Health care affordability
  - Health care quality
  - Improving the health of Michigan's residents
- The new nonprofit entity will be governed by a Board and Advisory Council structure comprised of key health care stakeholders and experts
- Our expectation is that the \$1.5 billion contribution will be used for health care programs and there will be specific standards and metrics in place to ensure strong outcomes
- The nonprofit entity has the potential to generate an annuity stream that can serve generations of Michigan residents with long-lasting impact

**BCBSM will make a \$1.5 billion contribution in support of creating a healthier Michigan**

## UNPRECEDENTED CONTRIBUTION

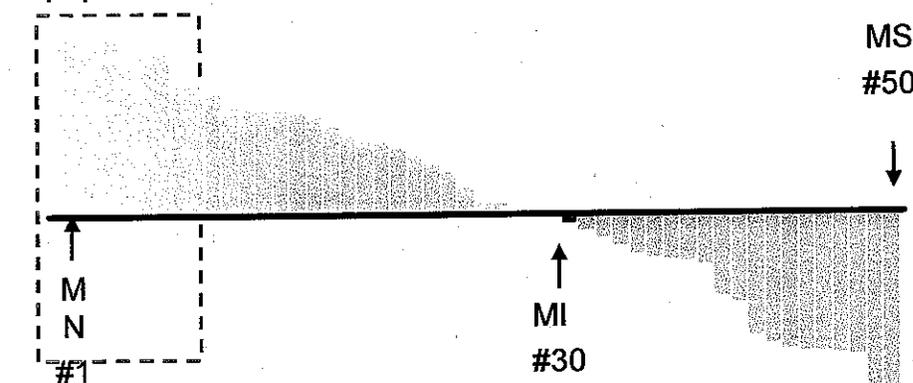
# \$1.5 billion contribution can be used for health care programs to make a significant impact on Michigan health

Michigan is currently ranked 30th out of 50 states on its overall health status...

### State health status indicator composite score relative to national weighted average

Average ranking, 2000-2009

Top quartile



- Michigan is ranked number 30 based on its overall health status indicator; ranking lower on key health care areas are as follows:
  - Number 39 on diabetes
  - Number 33 on smoking
  - Number 42 on obesity
- Focused, outcome driven spending could result in significant improvements even by attaining national average**

...and improvements to health status can drive significant economic competitiveness

- Poor population health drives significant labor force productivity and economic performance loss
  - Lost economic output due to health reasons represents \$260 billion per year in the United States<sup>1</sup>
- Given Michigan's health status ranking, it is likely to bear a disproportionate share of this economic loss
- BCBSM's contributions can drive a significant reduction in the economic loss by:
  - Improve the citizens' health
  - Improve overall productivity
  - Create a more competitive business climate with lower health care costs
- Even a modest improvement (e.g., 5%) could drive as much as a half-billion dollars in annual productivity gain, encouraging a more competitive business climate**

<sup>1</sup> Health reasons include not working, sick days, and subpar productivity  
Source: The Commonwealth Fund (2005), [www.americashealthrankings.com](http://www.americashealthrankings.com)

UNPRECEDENTED CONTRIBUTION

**BCBSM's \$1.5 Billion contribution would far exceed any other contribution from nonprofit to nonprofit transitions**

EXAMPLES

Nonprofit mutuals <sup>1</sup>	Total contributions \$ Millions	Current Membership Millions	Year of mutualization
New Mexico <sup>1</sup>	55	0.4	2001
Texas	10	4.8	1998
Iowa	0	1.8	1991
Kansas	0	0.9	1992
Mississippi	0	0.6	1996
North Dakota	0	0.4	1997
Proposed Michigan	1.5 billion	4.4	2012

- Contribution would be larger than any other nonprofit mutualizations (even when adjusting for membership and inflation)<sup>2</sup>
- BCBSM is committed to nonprofit status and to retain jobs within Michigan

<sup>1</sup> Total contributions of \$55M; \$20M endowment to its Foundation and \$35M towards existing liabilities  
<sup>2</sup> Adjustment contribution assumed based on 4.3M members and adjusted for inflation; average inflation from 1991-2011 assumed 2.6% (CPI)

## UNPRECEDENTED CONTRIBUTION

# A “valuation” is not the right tool to use when looking at BCBSM’s unprecedented contribution

### A “valuation” is not appropriate because:

- BCBSM is neither being sold nor being converted to a for-profit company
- In cases where a nonprofit converts to a for-profit company, it is tradition to do a “valuation” of the assets of the nonprofit organization before those assets become property of a company, rather than the community
- While this legislation will not allow BCBSM to become a for-profit company, if in the future the law was changed, the people of Michigan would then be entitled to proceeds equal to the fair market value of Blue Cross and its subsidiaries at the time of the transaction

**BCBSM is not converting to a for-profit governance structure, but rather is transitioning to another model of non-profit governance**

**Governor's proposal guarantees that BCBSM will continue to be a nonprofit, Michigan-based health insurer**

- The legislation would not allow BCBSM to become a for-profit company
- BCBSM would not be sold to an out of state company, preserving jobs and growth opportunities here in Michigan
- BCBSM will continue to be governed with members on its board of directors representing diverse health care stakeholders
- BCBSM will continue to serve as insurer of last resort until 2014, when all insurers will share that responsibility

**BCBSM has been and will always be committed to being a Michigan company serving the people of Michigan**

COMMITMENT TO MICHIGAN

**BCBSM will remain committed to Michigan**

*Michigan jobs:*  
BCBSM supports  
over 7,000 jobs

*Michigan cities:*  
97% of Blue  
workforce is  
located in the  
downtown areas  
of Detroit,  
Lansing and  
Grand Rapids

*Michigan  
economy:*  
BCBSM has spent  
over \$331 million  
in 2010

*Michigan health:*  
Provides health  
insurance to over  
4 million  
people regardless  
of zip code

- BCBSM is a **Michigan company**, an **independent** licensee of the Blue Cross and Blue Shield Association, that represents our members to ensure they have access to the health care they need, when they need it and at a price they can afford.
- For the past 70 years, BCBSM has worked as a **committed partner** with health care providers, businesses, labor, state government and consumers to improve Michigan all around

**BCBSM's goals and purpose would remain the same:  
Remain committed to Michigan, expand access to health care, control health care costs, and improve health care quality**

## We should act now to modernize Michigan's health insurance market

- A level playing field will benefit Michigan citizens because a modern, competitive marketplace improves quality, expands choices and controls costs
- A \$1.5 billion unprecedented commitment will help the people of Michigan by investing in key health care priorities
- There is significant conflict between our current regulatory processes and the federal regulatory structure beginning early next year
- BCBSM requires regulatory clarity to make significant business decisions
- Making decisions without clarity will have a negative impact in the market place and on consumer choice

Governor Snyder's plan does not establish the exchange or the ACA in Michigan. It will, however, ensure that Michigan's health insurance market place will work better regardless of whether the ACA stays in place

## Conclusion

### Key features of Governor's plan:

1. Regulates all health insurers under the same set of rules – creating a **level playing field** to increase competition, reduce health care costs, improve quality, and give customers more choices while also ensuring that **BCBSM pays state taxes**
2. Establishes an **unprecedented \$1.5 billion contribution** from BCBSM for the health of Michigan's people
3. Ensures that BCBSM will continue to be a **nonprofit**, Michigan based health insurer dedicated to guaranteeing that all Michigan citizens have access to high-quality, affordable health insurance

